

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Auditor's Reports and Financial Statements
December 31, 2013 and 2012



Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
December 31, 2013 and 2012

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32

Independent Auditor's Report

Board of Trustees
Stillwater Medical Center Authority
Stillwater, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Stillwater Medical Center Authority (the Authority), a component unit of the City of Stillwater, Oklahoma, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Stillwater Medical Center Authority as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 16* to the financial statements, in 2013, the reporting entity changed to exclude the Stillwater Medical Center Foundation, Inc., as part of the combined financial statements as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
May 28, 2014

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Stillwater Medical Center Authority (the Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

As discussed in *Note 16*, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, during the year ended December 31, 2013. As a result of implementing GASB Statement No. 61, the reporting entity changed to exclude Stillwater Medical Center Foundation, Inc. (the Foundation) as part of the combined financial statements. The information in the accompanying financial statements and in this management's discussion and analysis have been adjusted to exclude the Foundation in all years presented.

Financial Highlights

- Cash and cash equivalents increased in 2013 by \$3,650,024 (39.7%) and decreased in 2012 by \$8,119,956 (46.9%).
- The Authority's net position increased in 2013 and 2012 by \$10,691,283 (10.9%) and \$14,922,750 (18.0%), respectively.
- The Authority reported operating income in 2013 and 2012 of \$6,979,686 and \$12,677,648, respectively. The operating income in 2013 decreased by \$5,697,962 (44.9%) over the operating income reported in 2012. The operating income in 2012 increased by \$912,500 (7.8%) from the operating income reported in 2011.
- Net nonoperating revenues increased by \$1,443,111 (64.3%) in 2013 compared to 2012 and increased by \$2,483,556 (1041.5%) in 2012 compared to 2011.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any organization's finances is, "Is the organization as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by \$10,691,283 (10.9%) in 2013 over 2012 and increased by \$14,922,750 (18.0%) in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012 (Restated – Note 16)	2011 (Restated – Note 16)
Assets			
Cash and cash equivalents	\$ 12,840,303	\$ 9,190,279	\$ 17,310,235
Patient accounts receivable, net	16,674,453	12,590,472	11,536,078
Investments	39,870,906	39,523,614	26,659,884
Other current assets	3,876,660	5,813,425	3,111,183
Capital assets, net	51,850,448	48,678,605	40,955,235
Other noncurrent assets	9,056,333	9,842,061	6,897,546
Total assets	<u>\$ 134,169,103</u>	<u>\$ 125,638,456</u>	<u>\$ 106,470,161</u>
Liabilities			
Long-term debt (including current portion)	\$ 14,569,636	\$ 14,962,503	\$ 15,127,818
Other current liabilities	11,143,851	12,911,620	8,500,760
Total liabilities	<u>25,713,487</u>	<u>27,874,123</u>	<u>23,628,578</u>
Net Position			
Net investment in capital assets	37,185,672	30,418,161	25,605,624
Restricted – expendable	2,602,974	2,629,384	2,550,074
Unrestricted	68,666,970	64,716,788	54,685,885
Total net position	<u>108,455,616</u>	<u>97,764,333</u>	<u>82,841,583</u>
Total liabilities and net position	<u>\$ 134,169,103</u>	<u>\$ 125,638,456</u>	<u>\$ 106,470,161</u>

A significant change in the Authority's assets in 2013 is the increase in cash and cash equivalents of \$3,650,024 (39.7%), the results of which are described in the Authority's cash flows disclosure on page 7. Patient accounts receivable, net, increased \$4,083,981 (32.4%) which is consistent with the increases in net patient service revenue. Other current assets decreased \$1,936,765 (33.3%) in 2013 as a result of a receivable from self-insured health reinsurance in the amount of \$1,387,000 recorded in 2012 and from a \$597,252 electronic health records incentive receivable in 2012, both of which were received in 2013.

A significant change in the Authority's assets in 2012 is the decrease in cash and cash equivalents of \$8,119,956 (46.9%) as a result of moving additional cash reserves and cash generated from operations into investment accounts, which increased \$12,863,730 (48.3%). Patient accounts receivable, net increased \$1,054,394 (9.1%) as a result of increased net patient service revenue.

Operating Results and Changes in the Authority's Net Position

In 2013, the Authority's net position increased by \$10,691,283 as shown in Table 2. This increase is made up of several different components and represents a decrease of \$4,231,467 (28.4%) compared with the increase in net position for 2012 of \$14,922,750. The Authority's change in net position increased from \$11,714,664 in 2011 to \$14,922,750 in 2012, an increase of \$3,208,086 or 27.4%.

Table 2: Operating Results and Changes in Net Position

	2013	2012 (Restated – Note 16)	2011 (Restated – Note 16)
Operating Revenues			
Net patient service revenue	\$ 116,878,343	\$ 100,554,781	\$ 93,440,137
Gain on investment in joint ventures	1,274,807	1,312,868	727,583
Other operating revenues	<u>4,266,582</u>	<u>5,522,662</u>	<u>3,989,504</u>
Total operating revenues	<u>122,419,732</u>	<u>107,390,311</u>	<u>98,157,224</u>
Operating Expenses			
Salaries, wages and employee benefits	62,682,946	49,226,902	45,205,031
Purchased services and professional fees	12,758,221	10,688,881	10,865,449
Supplies and other expenses	32,274,513	29,004,588	25,110,227
Depreciation and amortization	<u>7,724,366</u>	<u>5,792,292</u>	<u>5,211,369</u>
Total operating expenses	<u>115,440,046</u>	<u>94,712,663</u>	<u>86,392,076</u>
Operating Income	<u>6,979,686</u>	<u>12,677,648</u>	<u>11,765,148</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	44,485	22,273	189,712
Gain on investment in joint ventures	55,392	159,125	70,022
Investment income	4,457,874	2,883,089	403,945
Interest expense	<u>(869,538)</u>	<u>(819,385)</u>	<u>(902,133)</u>
Total nonoperating revenues (expenses)	<u>3,688,213</u>	<u>2,245,102</u>	<u>(238,454)</u>
Gifts to Purchase Capital Assets and Other Capital Gifts	<u>23,384</u>	<u>-</u>	<u>187,970</u>
Increase in Net Position	<u>\$ 10,691,283</u>	<u>\$ 14,922,750</u>	<u>\$ 11,714,664</u>

Operating Income

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating income.

Operating income for 2013 decreased by \$5,697,962 (44.9%) as compared to 2012. The primary components of the decreased operating income are:

- An increase in net patient service revenue of \$16,423,562 (16.2%) as a result of the addition of OrthoOklahoma, P.C. (OrthoOklahoma) and the physicians previously associated with the Warren Clinic located in Stillwater, Oklahoma, resulting in increased net patient service revenue of approximately \$7,505,000 and \$3,317,000, respectively, during 2013. In addition, the Authority posted rate increases to most inpatient and outpatient services averaging 6.9%.
- An increase in salaries, wages and employee benefits of \$13,456,044 (27.3%) as a result of pay increases in combination with the addition of OrthoOklahoma and the physicians previously associated with the Warren Clinic located in Stillwater, resulting in increased salaries, wages and employee benefits of approximately \$4,764,000 and \$3,115,000, respectively, during 2013.
- An increase in supplies and other expenses of \$3,269,925 (11.3%) as a result of the addition of OrthoOklahoma and the physicians previously associated with the Warren Clinic located in Stillwater, resulting in increased supplies and other expenses of approximately \$968,000 and \$1,092,000, respectively, during 2013. The current year includes drug and other expenses of approximately \$462,000 related to the 2013 opening of the Authority's oncology clinic. In addition, during 2013, the Authority saw increased salaries during the year as a result of pay increases and market adjustments totaling approximately 3.5%.
- An increase in purchased services and professional fee expenses of \$2,069,340 (19.4%) as a result of the addition of OrthoOklahoma, the physicians previously associated with the Warren Clinic located in Stillwater and the Authority's oncology clinic, resulting in increased purchased services and professional fees of approximately \$514,000, \$279,000 and \$252,000, respectively, during 2013. In addition, the current year also includes increases related to the Authority's use of mid-level practitioners within the emergency department totaling approximately \$186,000. Other various increases in purchased services and professional fees include the need for additional service contracts related to necessary equipment, increased information technology services outsourced and consulting services provided in advance of the Authority's 340B program.

Operating income for 2012 increased by \$912,500 (7.8%) as compared to 2011. The primary components of the increased operating income are:

- An increase in net patient service revenue of \$7,114,644 (7.6%) as a result of receiving approximately \$4,510,000 in Supplemental Hospital Offset Payment Program (SHOPP) funds and as a result of increases in the Authority's standard prices.
- An increase in other operating revenue of \$1,533,158 (38.4%) primarily as a result of revenue earned from Medicare and Medicaid incentive funds related to implementation of electronic health records.
- An increase in salaries, wages and employee benefits of \$4,021,871 (8.9%) as a result of pay increases of 3% with market adjustment of 1.8%. The Authority also experienced higher self-funded health plan payouts in 2012 compared to 2011. In addition, the Authority experienced an increase in therapy staffing that had been outsourced in previous years.

- An increase in supplies and other expenses of \$3,894,361 (15.5%) as a result of approximately \$2,483,000 in funds paid for the SHOPP assessment fee and as a result of overall cost increases of medical and pharmaceutical supplies.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of the Authority's investment in joint ventures, investment income and interest expense. In 2013 and 2012, the Authority's investment income increased by \$1,574,785 and \$2,479,144 as compared to 2012 and 2011, respectively, due to increases in the total volume of investments and due to greater performance in investment markets.

The Authority's Cash Flows

Net cash provided by operating activities decreased in 2013 by \$3,107,412 (18.6%) from 2012. The decrease is attributable to operating expenses increasing at a higher level than the increases to operating revenues during the period as discussed above. The cash generated from operating activities was reinvested back into the facility through new equipment purchases and infrastructure improvements. Therefore, the Authority's overall cash position increase is attributable to the cash provided by investing activities.

Capital Assets and Debt Administration

Capital Assets

At the end of 2013, the Authority had \$51,850,448 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2013, the Authority purchased new equipment and infrastructure improvements costing \$9,743,726. Of this amount, \$588,827 was acquired through incursion of capital lease obligations.

At the end of 2012, the Authority had \$48,678,605 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2012, the Authority purchased new equipment and infrastructure improvements costing \$12,990,035. Of this amount, \$727,503 was acquired through incursion of capital lease obligations.

Debt

At December 31, 2013 and 2012, the Authority had \$14,569,636 and \$14,962,503, respectively, in revenue bonds and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. The Authority incurred \$588,827 and \$727,503 of new debt in 2013 and 2012, respectively, all of which related to the purchase of assets under capital lease obligations.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Business Administration by telephoning 405.372.1480.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Balance Sheets
December 31, 2013 and 2012

Assets

	2013	2012 (Restated – Note 16)
Current Assets		
Cash and cash equivalents	\$ 12,840,303	\$ 9,190,279
Short-term investments	27,779,379	26,713,922
Restricted cash and investments – current	1,049,654	1,006,704
Patient accounts receivable, net of allowance; 2013 – \$5,010,000, 2012 – \$4,530,000	16,674,453	12,590,472
Supplies	2,513,728	2,334,357
Estimated amounts due from third-party payers	-	285,000
Prepaid expenses and other	1,362,932	3,194,068
Total current assets	62,220,449	55,314,802
Noncurrent Cash and Investments		
Held by trustee for debt service	2,662,628	2,686,088
Less amount required to meet current obligations	1,049,654	1,006,704
	1,612,974	1,679,384
Other long-term investments	9,428,899	10,123,604
Noncurrent cash and investments, net	11,041,873	11,802,988
Capital Assets, Net	51,850,448	48,678,605
Investments in Joint Ventures	2,257,357	2,022,685
Goodwill, Net	6,798,976	7,819,376
Total assets	\$ 134,169,103	\$ 125,638,456

Liabilities and Net Position

	2013	2012 (Restated – Note 16)
Current Liabilities		
Current maturities of long-term debt	\$ 1,127,309	\$ 950,000
Accounts payable	2,201,820	5,087,982
Accrued expenses	8,772,031	7,823,638
Estimated amounts due to third-party payers	<u>170,000</u>	<u>-</u>
Total current liabilities	12,271,160	13,861,620
Long-Term Debt	<u>13,442,327</u>	<u>14,012,503</u>
Total liabilities	<u>25,713,487</u>	<u>27,874,123</u>
Net Position		
Net investment in capital assets	37,185,672	30,418,161
Restricted – expendable for debt service	2,602,974	2,629,384
Unrestricted	<u>68,666,970</u>	<u>64,716,788</u>
Total net position	<u>108,455,616</u>	<u>97,764,333</u>
Total liabilities and net position	<u>\$ 134,169,103</u>	<u>\$ 125,638,456</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated – Note 16)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$11,876,399, 2012 – \$8,368,682	\$ 116,878,343	\$ 100,554,781
Gain on investment in joint ventures	1,274,807	1,312,868
Other	4,266,582	5,522,662
Total operating revenues	122,419,732	107,390,311
Operating Expenses		
Salaries and wages	49,241,003	38,589,759
Employee benefits	13,441,943	10,637,143
Purchased services and professional fees	12,758,221	10,688,881
Supplies and other expenses	32,275,748	28,990,479
Depreciation and amortization	7,724,366	5,792,292
(Gain) loss on sale of capital assets	(1,235)	14,109
Total operating expenses	115,440,046	94,712,663
Operating Income	6,979,686	12,677,648
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	44,485	22,273
Gain on investment in joint ventures	55,392	159,125
Investment income	4,457,874	2,883,089
Interest expense	(869,538)	(819,385)
Total nonoperating revenues (expenses)	3,688,213	2,245,102
Excess of Revenues over Expenses Before Capital Gifts	10,667,899	14,922,750
Gifts to Purchase Capital Assets and Other Capital Gifts	23,384	-
Increase in Net Position	10,691,283	14,922,750
Net Position, Beginning of Year, as Restated (Note 16)	97,764,333	82,841,583
Net Position, End of Year	\$ 108,455,616	\$ 97,764,333

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated – Note 16)
Operating Activities		
Receipts from and on behalf of patients	\$ 113,249,362	\$ 101,022,646
Payments to suppliers and contractors	(42,348,060)	(41,808,676)
Payments to employees	(62,682,946)	(49,226,902)
Other receipts and payments, net	5,358,868	6,697,568
	<u>13,577,224</u>	<u>16,684,636</u>
Noncapital Financing Activities		
Noncapital gifts	44,485	22,273
	<u>44,485</u>	<u>22,273</u>
Capital and Related Financing Activities		
Capital grants and gifts	23,384	-
Proceeds from disposal of capital assets	7,089	31,287
Principal paid on long-term debt	(981,694)	(1,173,747)
Interest paid on long-term debt	(744,568)	(788,834)
Purchase of capital assets	(12,389,719)	(8,619,405)
	<u>(14,085,508)</u>	<u>(10,550,699)</u>
Investing Activities		
Change in restricted assets whose use is limited under bond agreements, net	23,460	(68,266)
Change in investments, net	3,167,596	(10,831,485)
Dividends received from investments in joint ventures	3,241	125,372
Purchase of OrthoOklahoma	-	(4,210,897)
Purchase of Randall Respiratory	-	(210,000)
Investment income received	919,526	919,110
	<u>4,113,823</u>	<u>(14,276,166)</u>
Increase (Decrease) in Cash and Cash Equivalents	3,650,024	(8,119,956)
Cash and Cash Equivalents, Beginning of Year, as Restated (Note 16)	9,190,279	17,310,235
Cash and Cash Equivalents, End of Year	<u>\$ 12,840,303</u>	<u>\$ 9,190,279</u>

See Notes to Financial Statements

	2013	2012 (Restated – Note 16)
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 6,979,686	\$ 12,677,648
Depreciation and amortization	7,724,366	5,792,292
Accrued self-insurance costs	(768,707)	1,395,474
(Gain) loss on sale of capital assets	(1,235)	14,109
Provision for uncollectible accounts	11,876,399	8,368,682
Changes in operating assets and liabilities		
Patient accounts receivable	(15,960,380)	(8,761,291)
Supplies, prepaid expenses and other	1,509,151	(2,321,587)
Estimated amounts due to/from third-party payers	455,000	(535,000)
Change in investment in joint ventures	(182,521)	(137,962)
Accounts payable and accrued expenses	1,945,465	192,271
	<u>\$ 13,577,224</u>	<u>\$ 16,684,636</u>
Supplemental Cash Flows Information		
Capital asset purchases in accounts payable	\$ 215,741	\$ 3,540,561
Prepaid expenses in accounts payable	\$ -	\$ 4,725
Capital lease obligations incurred for equipment	\$ 588,827	\$ 727,503

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority) is a public trust and an agency of the state of Oklahoma. The Authority is a component unit of the City of Stillwater, Oklahoma (the City), as the Board of Commissioners of the City appoints the majority of the members of the Board of Trustees of the Authority. The Authority operates, as its sole activity, Stillwater Medical Center under the terms of a trust indenture originally dated December 14, 1971.

The Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Stillwater, Oklahoma, and surrounding communities. The Authority also operates physician clinics, a rehabilitation unit and provides home health services in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Authority is self-insured for a portion of its exposure to the risk of loss from workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition, non-negotiable certificates of deposit and guaranteed investment contracts are carried at amortized cost. The investments in joint ventures are reported on the cost and equity methods of accounting (see *Note 5* for additional information on joint ventures). All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	8–20 years
Buildings and leasehold improvements	10–40 years
Equipment	3–20 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs is contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. Eligibility under the Medicaid program generally requires a minimum Medicaid payer mix threshold. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

The Authority completed the second-year requirements under the Medicaid program and recorded revenue of approximately \$81,000 and \$322,000 in 2013 and 2012, respectively. In 2012, the Authority completed the first-year requirements under the Medicare program and has recorded revenue of approximately \$905,000 and \$1,743,000 in 2013 and 2012, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

During the years ended December 31, 2013 and 2012, the Authority had the following activity related to the SHOPP program:

	2013	2012
SHOPP funds received	\$ 3,440,000	\$ 4,510,000
SHOPP assessment fees paid	1,721,000	2,483,000
Net benefit under SHOPP	\$ 1,719,000	\$ 2,027,000

The annual amounts to be received and paid by the Authority over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP program is not expected to be materially different than the net amounts received in 2013. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and home health services are paid at prospectively determined rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through December 31, 2011.
- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 41% and 42% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires the collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At December 31, 2013 and 2012, approximately \$1,722,000 and \$0 of the Authority's bank balances of \$7,887,000 and \$8,253,000, respectively, were uninsured and uncollateralized.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2013 and 2012, the Authority had the following investments and maturities:

Type	December 31, 2013				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 407,115	\$ 34,992	\$ 238,527	\$ 97,216	\$ 36,380
U.S. agencies obligations	3,900,189	335,412	552,107	866,977	2,145,693
Corporate bonds	5,590,474	98,475	1,177,663	2,957,421	1,356,915
Money market mutual funds	13,650,376	13,650,376	-	-	-
Mutual funds	9,464,309	5,009,365	1,993,962	2,460,982	-
	33,012,463	<u>\$ 19,128,620</u>	<u>\$ 3,962,259</u>	<u>\$ 6,382,596</u>	<u>\$ 3,538,988</u>
Corporate stocks	10,761,812				
Accrued investment income	103,851				
	43,878,126				
Guaranteed income contract – carrying value	1,245,000				
Total investments	<u>\$ 45,123,126</u>				

Type	December 31, 2012				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 205,891	-	-	\$ 54,883	\$ 151,008
U.S. agencies obligations	4,896,875	-	830,974	275,512	3,790,389
Corporate bonds	5,120,664	99,826	673,719	3,149,143	1,197,976
Money market mutual funds	10,310,074	10,310,074	-	-	-
Mutual funds	8,313,475	4,369,885	1,638,796	2,304,794	-
	28,846,979	<u>\$ 14,779,785</u>	<u>\$ 3,143,489</u>	<u>\$ 5,784,332</u>	<u>\$ 5,139,373</u>
Corporate stocks	10,800,604				
Accrued investment income	95,438				
	39,743,021				
Guaranteed income contract – carrying value	1,245,000				
Total investments	<u>\$ 40,988,021</u>				

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy limits its investment portfolio to an average maturity of three to five years with an average overall portfolio duration greater than 7.5 years. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority’s policy to limit its domestic fixed income investments to a credit rating of no less than investment grade and an overall, weighted-average rating of A by Standard & Poor’s (S & P), Moody’s or Fitch. At December 31, 2013 and 2012, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

Investments	2013	
	Moody’s	S & P
Guaranteed investment contract	Not Rated	Not Rated
U.S. agencies obligations	Aaa	AA+
Corporate bonds	Not rated to Aaa	BBB to AAA
Money market mutual funds	Aaa-mf	AAAm
Mutual funds	Not Rated	Not Rated

Investments	2012	
	Moody’s	S & P
Guaranteed investment contract	Not Rated	Not Rated
U.S. agencies obligations	Aaa	AA+
Corporate bonds	C–Aaa	BBB–AA+
Money market mutual funds	A3–Aaa	AAA–AAAm
Mutual funds	Not Rated	Not Rated

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investment policy does not address custodial credit risk.

Concentration of Credit Risk – The Authority limits exposure of the portfolio to any one issuer, other than U.S. government or its agencies, to 10% of the market value of the fixed income portfolio and to 5% of the market value of the equity portfolio.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

At December 31, 2013, no investments exceeded 5% of the total fair value of all investments. At December 31, 2012, investments exceeding 5% of the total fair value of all investments included Federal Nation Mortgage Association in the amount of \$2,973,978 or 7.3%.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	<u>2013</u>	<u>2012</u>
Carrying value		
Deposits	\$ 7,588,083	\$ 7,725,872
Investments	<u>45,123,126</u>	<u>40,988,021</u>
	<u>\$ 52,711,209</u>	<u>\$ 48,713,893</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 12,840,303	\$ 9,190,279
Short-term investments	27,779,379	26,713,922
Restricted cash and investments – current	1,049,654	1,006,704
Noncurrent cash and investments	<u>11,041,873</u>	<u>11,802,988</u>
	<u>\$ 52,711,209</u>	<u>\$ 48,713,893</u>

Investment Income

Investment income for the years ended December 31, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Interest, dividends and realized gain on sales of investments	\$ 2,485,782	\$ 963,798
Net increase in fair value of investments	<u>1,972,092</u>	<u>1,919,291</u>
	<u>\$ 4,457,874</u>	<u>\$ 2,883,089</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 3,655,015	\$ 2,721,769
Medicaid	773,720	982,513
Other third-party payers	10,073,141	7,591,599
Patients	<u>7,182,577</u>	<u>5,824,591</u>
	21,684,453	17,120,472
Less allowance for uncollectible accounts	<u>5,010,000</u>	<u>4,530,000</u>
	<u><u>\$ 16,674,453</u></u>	<u><u>\$ 12,590,472</u></u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 5: Investments in Joint Ventures

The investments in joint ventures relate to a 10% ownership in Heartland Healthcare Reciprocal Risk Retention Group (Heartland), which is accounted for using the equity method of accounting; a 62% ownership in Stillwater Medical Imaging, LLC, which is accounted for using the equity method (as the Authority only controls 50% of the entity); a 50% ownership in Women First, LLC, which is accounted for using the equity method; and a 9% ownership in Fresenius Medical Care – Stillwater, LLC, which is accounted for using the cost method. Financial position and results of operations from Heartland’s audited financial statements and the unaudited financial statements of the remaining joint venture entities for the fiscal years ended December 31, 2013 and 2012, are summarized below:

	December 31, 2013			
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	\$ 15,050,049	\$ 1,965,685	\$ 279,954	\$ 451,915
Property and other long-term assets, net	<u>19,000</u>	<u>669,489</u>	<u>2,008,707</u>	<u>108,531</u>
Total assets	<u>\$ 15,069,049</u>	<u>\$ 2,635,174</u>	<u>\$ 2,288,661</u>	<u>\$ 560,446</u>
Total liabilities	\$ 6,018,828	\$ 566,041	\$ 167,369	\$ 27,583
Partners’ equity	<u>9,050,221</u>	<u>2,069,133</u>	<u>2,121,292</u>	<u>532,863</u>
Total liabilities and partners’ equity	<u>\$ 15,069,049</u>	<u>\$ 2,635,174</u>	<u>\$ 2,288,661</u>	<u>\$ 560,446</u>
Revenues	<u>\$ 3,331,650</u>	<u>\$ 2,762,450</u>	<u>\$ 1,271,341</u>	<u>\$ 496,722</u>
Excess of revenues over expenses	<u>\$ 536,255</u>	<u>\$ 1,692,297</u>	<u>\$ (257,375)</u>	<u>\$ 447,569</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

	December 31, 2012			
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	\$ 14,419,907	\$ 1,832,683	\$ 559,821	\$ 263,598
Property and other long-term assets, net	<u>57,000</u>	<u>782,949</u>	<u>2,160,484</u>	<u>174,098</u>
Total assets	<u>\$ 14,476,907</u>	<u>\$ 2,615,632</u>	<u>\$ 2,720,305</u>	<u>\$ 437,696</u>
Total liabilities	\$ 6,135,395	\$ 630,096	\$ 305,639	\$ 152,402
Partners' equity	<u>8,341,512</u>	<u>1,985,536</u>	<u>2,414,666</u>	<u>285,294</u>
Total liabilities and partners' equity	<u>\$ 14,476,907</u>	<u>\$ 2,615,632</u>	<u>\$ 2,720,305</u>	<u>\$ 437,696</u>
Revenues	<u>\$ 4,389,416</u>	<u>\$ 3,146,745</u>	<u>\$ 1,740,729</u>	<u>\$ 454,033</u>
Excess of revenues over expenses	<u>\$ 1,224,750</u>	<u>\$ 1,863,064</u>	<u>\$ 316,426</u>	<u>\$ 330,442</u>

Complete financial statements of the joint venture entities may be obtained by contacting the Authority's management.

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverage from Heartland (see *Note 7*). For the years ended December 31, 2013 and 2012, the Authority paid approximately \$190,000 and \$173,000, respectively, to Heartland for the coverage. The Authority's investment in Heartland was \$825,853 and \$773,702 at December 31, 2013 and 2012, respectively.

Stillwater Medical Imaging, LLC (SMI) owns and operates MRI, CT and other imaging equipment. The Authority utilizes SMI to provide imaging services for its patients. The equipment is located within Stillwater Medical Center, and the Authority manages the operations and provides all staffing and supplies for SMI. The Authority performs all billing and collection services on behalf of SMI in exchange for a percentage of cash collections. SMI functions as if it were a department within the Authority. As a result, management has elected to record the gain on investment in SMI within other operating revenues. Included in accrued expenses of the Authority at December 31, 2013, is approximately \$478,000 due from the joint venture. Included in accrued expenses of the Authority at December 31, 2012, is approximately \$460,000 due to the joint venture. During the years ended December 31, 2013 and 2012, the Authority earned approximately \$886,000 and \$966,000, respectively, in fees from billing and collections services. The Authority's investment in SMI was \$919,677 and \$860,941 at December 31, 2013 and 2012, respectively.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Fresenius Medical Care – Stillwater, LLC (Fresenius) provides dialysis services to residents of Stillwater and the surrounding area. The Authority did not have any transactions with Fresenius during the year. The Authority’s investment in Fresenius was \$245,395 at December 31, 2013 and 2012.

Women First, LLC (Women First) was organized to provide digital mammography and bone density services to the patients of the Authority. The equipment is located within Stillwater Medical Center, and the Authority manages the operations and provides all staffing and supplies for Women First. Women First functions as if it were a department within the Authority. As a result, management has elected to record the gain on investment in Women First with other operating revenues. Included in accrued expenses of the Authority at December 31, 2013 and 2012, are approximately \$50,000 and \$44,000, respectively, due to the joint venture. During the years ended December 31, 2013 and 2012, Women First reimbursed the Authority approximately \$144,000 and \$154,000, respectively, for expenses the Authority incurred to manage its operations. The Authority’s investment in Women First was \$266,432 and \$142,647 at December 31, 2013 and 2012, respectively.

Note 6: Capital Assets

Capital assets activity for the years ended December 31, 2013 and 2012, was:

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 2,115,409	\$ -	\$ -	\$ 2,354,664	\$ 4,470,073
Land improvements	1,343,974	-	-	-	1,343,974
Buildings, fixed equipment and leasehold improvements	52,228,271	457,552	(36,649)	5,268,411	57,917,585
Major moveable equipment	57,283,253	4,572,786	(287,836)	(135,504)	61,432,699
Construction in progress	4,175,064	4,713,388	-	(7,487,571)	1,400,881
	<u>117,145,971</u>	<u>9,743,726</u>	<u>(324,485)</u>	<u>-</u>	<u>126,565,212</u>
Less accumulated depreciation					
Land improvements	1,274,832	22,947	-	-	1,297,779
Buildings, fixed equipment and leasehold improvements	28,168,147	1,905,484	(36,650)	-	30,036,981
Major moveable equipment	39,024,387	4,637,598	(281,981)	-	43,380,004
	<u>68,467,366</u>	<u>6,566,029</u>	<u>(318,631)</u>	<u>-</u>	<u>74,714,764</u>
Capital assets, net	<u>\$ 48,678,605</u>	<u>\$ 3,177,697</u>	<u>\$ (5,854)</u>	<u>\$ -</u>	<u>\$ 51,850,448</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 2,115,409	\$ -	\$ -	\$ -	\$ 2,115,409
Land improvements	1,317,931	-	-	26,043	1,343,974
Buildings, fixed equipment and leasehold improvements	51,203,554	366,330	(213,810)	872,197	52,228,271
Major moveable equipment	50,804,849	8,488,962	(1,826,958)	(183,600)	57,283,253
Construction in progress	754,961	4,134,743	-	(714,640)	4,175,064
	<u>106,196,704</u>	<u>12,990,035</u>	<u>(2,040,768)</u>	<u>-</u>	<u>117,145,971</u>
Less accumulated depreciation					
Land improvements	1,217,014	57,818	-	-	1,274,832
Buildings, fixed equipment and leasehold improvements	26,519,516	1,847,065	(198,434)	-	28,168,147
Major moveable equipment	<u>37,504,939</u>	<u>3,316,386</u>	<u>(1,796,938)</u>	<u>-</u>	<u>39,024,387</u>
	<u>65,241,469</u>	<u>5,221,269</u>	<u>(1,995,372)</u>	<u>-</u>	<u>68,467,366</u>
Capital assets, net	<u>\$ 40,955,235</u>	<u>\$ 7,768,766</u>	<u>\$ (45,396)</u>	<u>\$ -</u>	<u>\$ 48,678,605</u>

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, an accrual of approximately \$58,000 and \$157,000 has been made as of December 31, 2013 and 2012, respectively. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a subscriber (member) of Heartland, an entity approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. Heartland was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Heartland members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 5* for additional information about Heartland.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 8: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of approximately \$150,000 and any amounts over \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of \$150,000 up to \$1,000,000.

The Authority is self-insured for risks related to workers' compensation claims up to \$400,000 per occurrence with an annual liability limit of \$1,000,000 in the aggregate. In connection with the self-insured workers' compensation policy, the Authority was required to obtain a \$275,000 standby letter of credit. As of December 31, 2013, the Authority had not drawn upon the letter of credit.

A provision is accrued for self-insured employee health claims and workers' compensation claims, including both claims reported and claims incurred but not yet reported. The accruals are estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Authority's estimates will change by a material amount in the near term.

Activity in the Authority's accrued employee health and workers' compensation claims liability during 2013 and 2012 is summarized as follows:

	December 31, 2013	
	Employee Health	Workers' Compensation
Balance, beginning of year	\$ 2,087,000	\$ 201,155
Current year claims incurred and changes in estimates for claims incurred in prior years	6,595,227	480,392
Claims and expenses paid	<u>(7,492,376)</u>	<u>(351,950)</u>
Balance, end of year	<u>\$ 1,189,851</u>	<u>\$ 329,597</u>
	December 31, 2012	
	Employee Health	Workers' Compensation
Balance, beginning of year	\$ 600,000	\$ 292,681
Current year claims incurred and changes in estimates for claims incurred in prior years	5,557,230	143,280
Claims and expenses paid	<u>(4,070,230)</u>	<u>(234,806)</u>
Balance, end of year	<u>\$ 2,087,000</u>	<u>\$ 201,155</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 9: Long-Term Debt

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2003	\$ 7,000,000	\$ -	\$ -	\$ 7,000,000	\$ -
Revenue bonds payable – Series 2005	7,235,000	-	950,000	6,285,000	990,000
Capital lease obligations	<u>727,503</u>	<u>588,827</u>	<u>31,694</u>	<u>1,284,636</u>	<u>137,309</u>
Total long-term debt	<u>\$ 14,962,503</u>	<u>\$ 588,827</u>	<u>\$ 981,694</u>	<u>\$ 14,569,636</u>	<u>\$ 1,127,309</u>
	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2003	\$ 7,000,000	\$ -	\$ -	\$ 7,000,000	\$ -
Revenue bonds payable – Series 2005	8,135,000	-	900,000	7,235,000	950,000
Capital lease obligations	<u>273,747</u>	<u>727,503</u>	<u>273,747</u>	<u>727,503</u>	<u>-</u>
Total long-term debt	<u>\$ 15,408,747</u>	<u>\$ 727,503</u>	<u>\$ 1,173,747</u>	<u>\$ 14,962,503</u>	<u>\$ 950,000</u>

Revenue Bonds Payable – Series 2003

The Series 2003 revenue bonds payable consist of Hospital Revenue Bonds (the 2003 Bonds) in the original amount of \$7,000,000 dated November 13, 2003, which bear interest semiannually at 5.625%. The 2003 Bonds are payable in annual installments beginning May 15, 2018 through May 15, 2023. The 2003 Bonds are secured by the gross revenues of the Authority and the trustee-held assets restricted under the bond indenture agreement. In March 2014, the bonds were refinanced with a new bond (see *Note 17*).

Revenue Bonds Payable – Series 2005

The Series 2005 revenue bonds payable consist of Hospital Revenue Bonds (the 2005 Bonds) in the original amount of \$12,715,000 dated March 1, 2005, which bear interest semiannually at 4.50% to 5.25%. The 2005 Bonds are payable in annual installments through May 15, 2019. The Authority is required to make monthly deposits of approximately \$95,700 to the debt service fund held by the trustee. The 2005 Bonds are secured by the gross revenues of the Authority and the trustee-held assets restricted under the bond indenture agreement. In March 2014, the bonds were refinanced with a new bond (see *Note 17*).

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The indenture agreements also require the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.1 to 1.0 and restrictions on incurrence of additional debt.

The debt service requirements as of December 31, 2013, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2014	\$ 1,679,862	\$ 990,000	\$ 689,862
2015	1,686,312	1,050,000	636,312
2016	1,679,875	1,100,000	579,875
2017	1,677,125	1,155,000	522,125
2018	1,649,000	1,180,000	469,000
2019–2023	<u>9,222,906</u>	<u>7,810,000</u>	<u>1,412,906</u>
	<u>\$ 17,595,080</u>	<u>\$ 13,285,000</u>	<u>\$ 4,310,080</u>

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at December 31, 2013 and 2012, totaled \$1,316,454 and \$727,503, respectively, net of accumulated depreciation of \$214,135 and \$36,381, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest rates between 1.89% and 5.00% together with the present value of the future minimum lease payments as of December 31, 2013:

Year Ending December 31,	
2014	\$ 162,048
2015	615,459
2016	485,913
2017	<u>126,570</u>
Total minimum lease payments	1,389,990
Less amount representing interest	<u>105,354</u>
Present value of future minimum lease payments	<u>\$ 1,284,636</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 10: Charity Care and Uncompensated Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to these services are approximately as follows:

	<u>2013</u>	<u>2012</u>
Charity allowances	\$ 1,563,000	\$ 2,040,000
State Medicaid and other public aid programs	<u>10,715,000</u>	<u>9,334,000</u>
	<u>\$ 12,278,000</u>	<u>\$ 11,374,000</u>

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. In addition to uncompensated costs, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, community educational services and various support groups.

Note 11: Operating Leases

Noncancellable operating leases for equipment and building space expire in various years through December 2027. These leases generally contain renewal options for periods ranging from five to ten years and require the Authority to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2013, were approximately:

2014	\$ 953,000
2015	962,000
2016	972,000
2017	935,000
2018	868,000
2019–2022	3,362,000
2023–2027	<u>1,482,000</u>
Future minimum lease payments	<u>\$ 9,534,000</u>

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Rental expense for the years ended December 31, 2013 and 2012, was approximately \$1,982,000 and \$1,268,000, respectively.

Note 12: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 3% and 6% for 2013 and 2012, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,097,000 and \$1,987,000 during 2013, respectively, and \$891,000 and \$1,582,000 during 2012, respectively.

Note 13: Business Acquisitions

On December 31, 2012, the Authority acquired 100% of the assets of OrthoOklahoma, P.C. and W. S. & J. Management, L.L.C. (OrthoOklahoma). The purchase price of approximately \$4,210,000 was paid in cash. The results of OrthoOklahoma's operations will be included in the financial statements starting on that date. OrthoOklahoma is an orthopedic medical practice providing orthopedic surgery services to patients of the surrounding geographic area. As a result of the acquisition, the Authority will have an opportunity to increase procedure volumes through expansion of its orthopedic services.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. The excess of purchase price over the fair value of the assets was applied to goodwill.

Patient accounts receivable, net	\$ 661,785
Other current assets	63,753
Property, plant and equipment	<u>324,359</u>
Total assets acquired	<u>1,049,897</u>
Total liabilities assumed	<u>-</u>
Net assets acquired	<u><u>\$ 1,049,897</u></u>

The fair value of the transaction purchase price was determined based on a third-party appraisal at the date of acquisition.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Note 14: Acquired Goodwill

Goodwill related to the 2009 acquisition of Stillwater Surgery Center, L.L.C., is being amortized on the straight-line basis over 15 years. Amortization expense is estimated to be approximately \$388,000 each year through 2024.

Goodwill related to the 2012 acquisition of OrthoOklahoma is being amortized on the straight-line basis over five years. Amortization expense is estimated to be approximately \$632,000 each year through 2017.

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2013 and 2012, were:

	2013	2012
Goodwill	\$ 8,983,976	\$ 8,983,976
Accumulated amortization	2,185,000	1,164,600
	\$ 6,798,976	\$ 7,819,376

The changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2012, were:

	2013	2012
Balance as of January 1	\$ 8,983,976	\$ 5,822,976
Goodwill acquired during the year	-	3,161,000
Balance as of December 31	\$ 8,983,976	\$ 8,983,976

Note 15: Risks and Uncertainties

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
December 31, 2013 and 2012

Patient Protection and Affordable Care Act (PPACA)

The PPACA will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Authority's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Authority's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Note 16: Change in Accounting Principle

In 2013, the Authority changed its reporting entity to exclude the Stillwater Medical Center Foundation, Inc. (the Foundation) as the Foundation did not meet the criteria for inclusion as a component unit under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, which became effective for reporting periods beginning after June 15, 2012. The impact of the change in accounting principle was to remove the Foundation as a blended component unit of the Authority. These changes decreased net position of the Authority as of January 1, 2012, by \$3,847,531 and decreased the previously reported change in net position for the year ended December 31, 2012, by \$450,418.

Note 17: Subsequent Events

In January 2014, the Authority purchased a physician office building from the Warren Professional Building Corporation for \$4,850,000 using cash reserves.

In March 2014, the Authority issued a new bond in the amount of \$15,570,000 for the purpose of refunding the Series 2003 and Series 2005 Hospital Revenue Bonds (see *Note 9*) and to restore cash reserves utilized to purchase the physician office building disclosed above. The new bond bears interest at 1.69%, payable semiannually, with principal payable in annual installments through May 2019.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Stillwater Medical Center Authority
Stillwater, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Stillwater Medical Center Authority (the Authority), which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated May 28, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
Stillwater Medical Center Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Authority's management in a separate letter dated May 28, 2014.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
May 28, 2014